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SUBJECT: CHAD MISSES 70 PERCENT TARGET BUT WORLD BANK STILL HOPEFUL

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¶11. (SBU) SUMMARY: The World Bank and IMF concluded two weeks of meetings with the Chadian government June 24, pleased with the participation of all ministries and openness of the process. They brought senior Chadian officials, including military, together for the first time to focus on budget discipline and the failure of the procurement system. It is a given that Chad has failed to meet its undertaking to commit 70 percent of all revenues to poverty reduction, but the World Bank was hopeful that Chad (particularly in view of the improved security situation) would turn over a new leaf in spending discipline -- enough to keep it on track for HIPC loans. END SUMMARY.

¶12. (SBU) To get a read-out on the just-concluded two-week series of meetings between the Chadian government and visiting World Bank and IMF teams, the Ambassador on June 24 met with World Bank oil expert Marie-Francoise Marie Nelly and Resident Representative Geoffrey Bergen and on June 25 with IMF Resident Representative Wayne Camard.

World Bank Sees Glass Half Full

¶13. (SBU) Marie Nelly and Bergen were appalled at what they described as a "completely broken" procurement process in Chad but, at the same time, delighted that, working with Finance Minister Abbas Tolli, they had succeeded in bringing the whole government, including the military, into open discussions of the budget and procurement process. Chad had completely failed to meet its undertaking in July 2006 to allocate 70 percent of revenues to priority spending in 2007 ("something under 60 percent"). What was worse, much of the money being spent on infrastructure in education and health was having little impact on poverty reduction. Construction being undertaken went far beyond what had been called for in the agreed projections. The Ministry of Infrastructure was, effectively, not talking to the Ministries of Education and Health, so that schools and clinics being built did not have content (books, benches, tables, medicines, vaccines).

¶14. (SBU) The multi-donor team placed these hard facts before the ministers, in the presence of the press, civil society, and unions, so that the magnitude of failure was manifest to all. The Ministry of Infrastructure, despite its implication

in the budget overrun, was cooperative and open throughout the discussions. According to Bergen, these meetings were the first occasion in Chad when all the ministries had been brought together and confronted with the strategic picture. The World Bank and IMF had walked the ministries through the basic requirements of a three-year budget projection in a variable revenue environment and of a transparent procurement system. They followed through with a detailed analysis of each sector, starting with education and health.

¶ 15. (SBU) Bergen said that construction costs on projects undertaken by the Ministry of Infrastructure were on average 30 percent higher than for donor-financed construction. The ministry had built 173 classrooms at a price that was perhaps four times what it should have been. Bergen speculated that some of this overrun was corruption -- into the minister's pocket -- but much of it could have been laundered into military purchases. Some of it was basic inefficiency. For example, Marie Nelly pointed out that the newly built classrooms were surrounded by fencing (400 kilometers of it), most of which, at least in rural areas, was unnecessary.

¶ 16. (SBU) Marie Nelly said that the World Bank/IMF had conducted long discussions with the Minister of Defense Mahamat Nour (until December a rebel leader) to try to get the military on message, though with what success they were not clear. Nour told them he was focused on two issues: negotiations with rebels, and a census of the army that would pave the way for a measured demobilization of the bloated force. Nour said there were 60,000 troops in the Chadian army -- far above the 32,000 figure which the World Bank had been working with (9,000 of Nour's rebels were part of the higher number). Bergen said that they had reviewed with Nour the huge expense involved in demobilization and in

maintenance of the newly acquired military equipment.

¶ 17. (SBU) Looking ahead, Marie Nelly said that the key element to success was a follow-up mechanism, to which the government had agreed. The budget office will prepare monthly reports on revenues and expenditures, the finance ministry will do a monthly analysis of compliance with the budget program, and the economic/planning ministry will provide a three-monthly analysis of sectoral compliance with multi-donor recommendations. The IMF will send out a team in September or October to track these budgetary and procurement/infrastructural requirements. The object is to keep Chad on track to qualify for the HIPC completion point by late 2008. Marie Nelly noted that HIPC was the principal leverage left to the World Bank. One and a half billion dollars would ride on it, equivalent to all the oil money that had so far accrued to Chad.

¶ 18. (SBU) To the Ambassador's question about the role of the "College" (Commission for Control and Oversight of Petroleum Resources), Bergen said that the College had been too narrowly defined in the past to have an effective oversight role. However, the finance minister, who had previously insisted on keeping the College within narrow confines, was now saying that the College needed to cover the entire budget. He believed that the College deserved U.S. support.

IMF Withholding Optimism

¶ 19. (SBU) In a separate, subsequent conversation, IMF rep Wayne Camard said that, indeed, there had been some positive developments during the multi-donor visit. Never before had such a thorough and hard-hitting presentation been given to all the ministries at a high level, with the press, non-governmental organizations, and the unions present. The military was opaque but, nonetheless, the IMF/World Bank had come away with a fairly clear idea of the magnitude of expenditures and a fairly clear forecast of coming expenditures if the security situation remained as relatively calm as it was now (not as fanciful a hope as it would have seemed a few months ago). Minister of Finance Tolli appeared to have Minister of Defense Nour on board. It was a given

that salaries would have to be raised 15 percent. A single Treasury account had been established in which all inflows and outflows would be open for view. There would be a monthly ceiling on outflow. The ministers of defense and infrastructure would know how much "pocket money" they would have available each month, and, in theory, they would have nothing more.

¶10. (SBU) It was possible that this scenario would be followed, Camard said, but just as (or more) likely that it would not be, and in the latter case, the World Bank did not seem to have a fall-back plan, a Plan B. The World Bank's principal remaining leverage for coaxing the Chadians to follow fiscal discipline was the prospect of HIPC infusions. However, the HIPC process required that Chad have at least six months' compliance with agreed standards for a three-year period, which in Chad's case elapsed in February 2008. The IMF Board would meet at the end of 2007 and it was possible that it would extend the period for a year, but only if Chad had significantly changed its fiscal behavior.

¶11. (SBU) Camard noted that the World Bank's oil revenue projections had been conservative. It had projected 58 dollars a barrel for 2007, falling in subsequent years, and production also falling after 2008. Its projections saw revenues peaking sharply in 2007 at over one billion dollars (partly due to overpayment in 2007), falling to half that in 2008 and falling in each subsequent year. In fact, Camard said, oil was now holding at 70 dollars a barrel and it could conceivably go up -- leaving Chad in a much rosier income situation, with consequences for any effort to maintain fiscal discipline.

¶12. (SBU) Camard anticipated that an IMF team would come to Chad in September to take a first look at compliance with budget requirements, but that would be too early for a complete picture, so another would perhaps come in November for a thorough read-out just prior to a meeting of the IMF Board. Meanwhile, the IMF's deputy managing director would meet Deby at the AU summit in Accra at the beginning of July, and the World Bank's Africa vice-president would meet Deby in Chad July 15. The head of IMF's Africa division might come to Chad in late July.
WALL